



## SENEGAL PROFILE REGARDING TOBACCO TAXATION

### Increasing tax pressure on tobacco to curb smoking

#### Context

#### Tobacco control is a global public health priority:

Two of the five million annual deaths caused by smoking in the



Senegal Emblem

world occur in Africa and the WHO predicts that if nothing is done, this figure will reach ten million by 2030, 70% of which in developing countries. The Framework Convention for Tobacco Control (FCTC) initiated in 1999 and adopted in May 2003 is an arsenal of provisions aimed at reducing the supply and demand of tobacco and protecting the current and future generations from its damaging economic, environmental and socio-sanitary effects. FCTC rests on information on these damaging effects, strong

political commitment, international cooperation, the multisectoral holistic approach, accountability, technical and financial assistance, to facilitate tobacco growers' re-conversion and the participation of the civil society. Dozens of irrefutable studies confirm that the increase in tobacco selling prices thanks to a higher specific excise duty reduces smoking considerably among teenagers, young adults and poor people (Bader et al, 2011). A meta-analysis published by the WHO's Newsletter in July 2013 shows a reduction in the number of smokers by 14.8 million and the avoided premature deaths by 7.4 million, in 41 countries having adopted between 2007 and 2010, the strategies recommended by the MPOWER Initiative, as a result of the tax increase on cigarettes (3.5 million) and the anti-smoking laws (2.5 million) (Levy et al, 2013). The UEMOA and ECOWAS directives on the taxation of tobacco do not take the FCTC provisions into account. Smoking is a major socio-sanitary issue in Senegal. The absence of a body to coordinate tobacco control efforts explains the absence of exhaustive data to assess the scale, the determining factors and the consequences of smoking in Senegal. The sketchy existing

data indicate a prevalence of 35% among adult people of over 35 years of age in 2011 and 12.8% among young people aged 13 to 15 years in 2007, with an intensity of 398 cigarettes per adult and per year in 2012. Between 13% and 43% of the heart and respiratory diseases recorded in Senegal are related to smoking. Smoking is a considerable factor of pauperization of the households. The tobacco industry has been fast-expanding since 2006 under the leadership of MTOA and PMMS, with a 142.6% growth of the production in five years. The legal and regulatory framework on tobacco, which has been in place since 1981, still needs to be completed by an anti-smoking law, especially after the ratification of FCTC in 2004. The associations deplore the government



Place of the Millennium Dakar

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prevarication. The packet of 20 ordinary and premium cigarettes costs between 435-604 CFA francs and 589-799 CFA francs. The turnover of 67 billion CFA francs in 2010 has been on the increase since 2007, with an average growth of 10.5%, with over 46 billion CFA francs from exports to ECOWAS and CE-MAC countries.

**The Problem: The current taxation of tobacco is not dissuasive enough to reduce smoking.**

The taxation of tobacco using the ad valorem system does not help in boosting the price of cigarettes, leading to an increase in the consumption of cigarettes. Some of the underlying factors are (i) the huge influence of the tobacco industry and importers in the definition of the market value of tobacco products, (ii) the irrelevancy of the UEMOA and ECOWAS regional directives on tobacco taxation, whose prime objective was to promote regional integration and not fight tobacco smoking, (iii) the complex nomenclature of the tax on tobacco, (iv) a fragmented and differential excise duty, with the possibility of exemption for

some tobacco products and (v) the vulnerability to fraud and manipulation of the custom declaration of the market value of tobacco products, as shown in the downgrading of a brand from “premium” to “Eco”, in view of cutting the excise duties from 45% to 20%, the selling price from 650 CFA francs to 400 CFA francs and the manipulation of the market value of non-stripped imported tobacco, especially from India, whose total value fell from 418 million CFA francs in 2007 to 13 million CFA francs in 2011, representing a 96.9 % decrease, while at the same time, the volumes were on the rise. The excise duty ranges from 20 to 45%, with a minimum amount of 3 CFA francs and 8 CFA francs, depending on the range of tobacco products, a sizeable part of which is tax-exempt. The effective taxation rate varies between 38 and 85.7%, depending on the range and origin of the cigarettes. Obviously, the tobacco industry has taken command of the sales price of cigarettes and uses all the stratagems to make the price of a packet of 20 cigarettes widely accessible to the majority of smokers (435 and 799 CFA francs since 2008). Tobacco products sold at a paltry price have a higher nicotine content, the addiction to which increases in the same way as the dose of the substance and the social and friendly pressure. The use of taxes as an anti-smoking tool should lead to such a dissuasive increase in the selling price that smokers are forced to reduce or stop their consumption of tobacco and potential smokers are discouraged from starting smoking. This impact should be maximal among young people and the poor, whose prevalence is 50.6%. For the ad valorem excise

duty to cut smoking and boost tax revenues, the declaration of the customs value should be sincere. The argument on the disastrous economic consequences of the tax increase is an exaggerated claim (Chaloupka et al, 2012).

**What to do? Three additional corrective measures to increase cigarette prices**

- (i) Revise Customs duties to simplify their nomenclature, subject all tobacco products to a single tax system, which can either be ad valorem, with the introduction of the 5th Band at 35%, or a flat-rate tax per unit of weight (kg) on import/export, which is aligned on inflation to reduce any manipulations of fraud on the market value of the imported tobacco products.
- (ii) Change the excise duty to replace the current mixed system with a specific excise duty in the form of an excise stamp aligned on inflation and affixed to all ready-for-consumption packets of tobacco-- which is easier to handle--, in order to strengthen the health system, curb smuggling and improve consumption statistics.
- (iii) Support the efforts at the regional level aimed at harmonizing and simplifying the tax system on tobacco and align it on FCTC, by proposing the increase in Customs duties, with a 5th Band at 35% and simplified nomenclature of tobacco, with a single regional tariff; the replacement of the ad valorem excise duty with a specific excise duty in the form of an excise stamp on every ready-for-consumption packet of tobacco, in view of improving traceability, contain smuggling, increase tax revenues and finance health systems.





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### What considerations should be taken into account for implementation?

The measures proposed are in line with the Framework Convention for Tobacco Control (FCTC) but

their application requires an all-inclusive synergy of all stakeholders through a national multisectoral body. This entity should lead an anti-smoking fight supported by scientific evidence and mobilize resources to create synergies between public actors and those of the civil society. Resistances can arise on the part of the tobacco industry (MTOA, PMMS), tobacco importers, wholesalers, and retailers, as well as tobacco growers and small tobacco craftsmen in the regions of Ziguinchor, Kolda, Bignona and Sedhiou, for financial reasons. A latent resistance by tax and customs administrations can be expected, since the simplification reduces discretion and consequently the opportunities for corruption. The

frustration of smokers addicted to nicotine justifies the setting up of units to make easier for them to stop smoking. Though there is not always multisectoral collaboration, the administrations in charge of finance (Customs, Taxes and Treasury Department), youth, education, trade, agriculture, rural development, poverty alleviation, security and health should work in unison with civil society organizations (CSOs). The cultural commitment to traditional tobacco farming will require anthropological investigations to identify the roots and reconversion alternatives. A collaborative follow-up and evaluation framework is crucial for the perpetuation of tobacco control actions.

#### Prices and taxes (in %) of ordinary cigarettes

	2008	2009	2010	2011
Average price of local ordinary cig, or cig. produced under license	440	435	445	435
Average price of imported ordinary cigarettes	583	583	614	604
Surcharge on imported cigarettes (in %)	20	20	20	20
Excise duties (in %)	20	20	20	20
VAT (in %)	18	18	18	18
Total taxes on local cigarettes (in %)	38	38	38	38
Total taxes on imported cigarettes (in %)	58	58	58	58

**Source:** Authors, table prepared from National Statistics and Demography Agency and Tax Division (2012) data.

#### Prices and taxes (in %) of luxury cigarettes

	2008	2009	2010	2011
Average price of local luxury cig, or cig. produced under license	567	547	607	589
Average price of imported luxury cigarettes	717	733	790	799
Surcharge on imported cigarettes (in %)	20	20	20	20
Excise duties (in %)	45	45	45	45
VAT (en %)	18	18	18	18
Statistical fee (in %)	1	1	1	1
Solidarity Community Levy, UEMOA (in %)	1	1	1	1
Community Levy, ECOWAS (in %)	0.5	0.5	0.5	0.5
Council of Senegalese Charterers/Shippers (in %)	0.2	0.2	0.2	0.2
Total taxes (in %) on local cigarettes (in %)	65.7	65.7	65.7	65.7
Total taxes (in %) on imported cigarettes (in %)	85.7	85.7	85.7	85.7

**Source:** Authors, table prepared from National Statistics and Demography Agency and Tax Division (2012) data.

## KEY MESSAGES

- The specific excise duty used as a tool to increase tobacco prices is the most effective strategy to fight tobacco and prevent chronic tobacco-related diseases. Its effectiveness increases as the regional tax system becomes more coherent. This is far from being the case in the ECOWAS region, where the disparate tax system ruins tobacco control efforts and encourages smuggling.

- In Senegal, a raw and manufactured tobacco producing country, the absence of institutional visibility for the fight against tobacco does not allow to gauge the scale, the determining factors and the consequences of tobacco smoking. The sketchy existing data indicate a prevalence of 35% among adult people of over 35 years of age in 2011 and 12.8% among young people aged 13 to 15 years in 2007, with an intensity of 398 cigarettes per adult and per year in 2012. Tobacco addiction increases the number of chronic cardio-respiratory affections and the impoverishment of the households, 50.6% of which are poor. Despite the adoption of an anti-smoking law in 1981 and the ratification of the Framework Convention for Tobacco Control (FCTC)

in 2004, Senegal has become the leading cigarette exporter in francophone Africa. A modern anti-smoking law is still awaited. The turnover estimated at 67 billion in 2011 represents 0.19% of the GDP. The taxation of tobacco in inconsistent with FCTC; it has not changed since 2005 and has failed to increase the price of the packet of 20 cigarettes, which still costs between 435 and 799 CFA francs, since 2008. The differential ad valorem excise duty and the complex tax nomenclature enable the tobacco industry to have complete control on the fixing of tobacco selling prices.

- Three additional measures are suggested to make tobacco products more expensive.

- i. Simplify the Customs nomenclature of tobacco and subject all tobacco products to a uniform system, which could either, be an ad valorem system introducing a 5th Band at 35%, or a flat-rate tax per unit of weight (kg) on import/re-export, which is aligned to inflation to reduce manipulations and fraudulent declarations of the customs value.

- ii. Replace the existing mixed system with a specific excise duty in the

form of an excise stamp to be affixed to every ready-for-consumption packet of tobacco, in order to bankroll the health system, curb smuggling and improve consumption statistics.

- iii. Initiate moves aimed at harmonizing and simplifying the regional tax regulations in the region, to align it to the UN Framework Convention for Tobacco Control (WHO-FCTC) and integrating the strategies of the MPOWER Initiative.

- These measures can trigger a general outcry from the tobacco industry, from distributors and retailers, and also from tobacco growers in Ziguinchor, Kolda, Bignona and Sedhiou for financial reasons. The frustration of smokers addicted to nicotine justifies the setting up of cessation support units. An all-inclusive multisectoral approach for a fight against tobacco buttressed by convincing evidence, public awareness and advocacy efforts and support for tobacco farmers' reconversion are necessary. The adoption of an anti-smoking law taking into account the provisions of WHO-FCTC and the MPOWER strategies will create the favorable appropriate conditions for the success of the reform.

## ELEMENTS OF METHODOLOGY

The International Development Research Centre (IDRC) has given a grant to the Consortium for Economic and Social Research (CRES) to conduct a research-action, in order to make a profile of national and regional tax systems on tobacco within the ECOWAS region. The dissemination of the findings in late November 2012 in Ouagadougou has informed national and regional leaders of regional tax disparities and led to recommendations for their harmonization. Each country team, with CRES support has made an overview of tobacco smoking and its consequences, of the tobacco sector, of the taxation of tobacco and of the contextual challenges. The present policy note is prepared from this overview and from recent studies of universal scope, in view of paving the way for the discussions between the various stakeholders of the fight against tobacco in Senegal and in West Africa.

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